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SUBJECT: CHAD: AID PROVISIONS TO GOVERNMENTS WITH
NONTRANSPARENT BUDGETS

REF: STATE 1923

SUMMARY

11. (SBU) This cable responds to requests for information in reftel related to Chad's degree of budget transparency and USG legal strictures prohibiting assistance to central governments whose budgets are not or have not been transparent. Paras 4 to 10 below are keyed to questions in para 3 of reftel. Paras 11 to 14 below respond to additional action requests in para 10 of reftel.

12. (SBU) In 2009, Chad received a waiver, on grounds of national interest, of requirements under Section 7086(c)(1) of the Foreign Operations Appropriations Act to make improvements in budget transparency. We believe that in the course of 2009, Chad has progressed on the transparency front, thanks to ongoing advice and technical assistance from the IMF, World Bank, and EU, and thanks also to its own efforts to reform and improve public revenue management. In our view, the nation should be judged sufficiently transparent to warrant obligation of all USG assistance funds without further scrutiny.

13. (SBU) If this is not deemed feasible, we believe that Chad should be granted another waiver on national security grounds so that planned USG assistance will not be affected, and so that cooperation on key regional stability goals including those affecting Darfur refugees will not suffer. Chad continues to host 270,000 Sudanese refugees, despite its own impoverished status and competition for scarce resources. Any diminution in U.S. assistance might indirectly affect refugees as well as Chadian IPDs and poverty-stricken host populations. END SUMMARY.

14. (SBU) Question: Is the Chadian central government expected to receive funding under the FY 2010 SFOAA? Answer: Yes. The U.S. spends upwards of \$400 million per year in Chad, although much of that consists of our contributions to UN assessed and other budgets, and to other international organizations and NGOs, for international peacekeeping, and for additional IO and NGO assistance to regional stability

efforts and aid to refugees in Eastern Chad. The USG's projected 2010 assistance benefiting the Chadian central government per se will be on the order of \$11.6 million in total (\$9.6 in developmental assistance, and some \$1 million each for IMET/FMF and NADR-ATA). Of this, \$9 million is for a food security project that will be channeled through Africare; thus it does not appear to meet reftel para five definition of direct assistance. An additional \$600,000 is planned in support for girls' education, similarly channeled through an NGO to the central government.

15. (SBU) Our planned \$1 million combined in IMET and FMF funding for restarting mil-to-mil cooperation under TSCTP would/would be in jeopardy if Chad were ruled to have insufficient budgetary transparency, as would our \$1 million in NADR-ATA law enforcement assistance training. IMET/FMF and ATA will be used to fund training and education programs that focus on human rights, rule of law, and proper civil-military relations, which are areas of extreme concern with respect to Chad's security institutions. Withholding assistance at a point when Chad's cooperation is needed to ensure regional security would be counterproductive to our broad strategic goals, including stability in areas hosting refugees, counter-terrorism, and professionalization of the Chadian military and law enforcement sectors. That such a large percentage of U.S. spending in Chad goes to international organizations and NGOs, when compared with our assistance to the Chadian government, is a source of considerable tension, and is complicating relations between the UN and Chad. Thus a withdrawal of IMET/FMF and AFA would have negative political resonance with the GoC beyond loss of the programs that will be funded from those sources.

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16. (SBU) Question: Is Chad's national budget publicly available? Answer: Yes. Yearly national budgets are printed by the government printing office in book form upon their adoption by the National Assembly and promulgation by the President. They are available to the general public from the Finance Ministry's Budget Office once printed. Some portions of military budgets are classified for security reasons. Draft portions of the Chadian national budget are available on a need-to-know basis to international providers of technical assistance (including the USG) before they are approved by the Finance Ministry and forwarded to the National Assembly for adoption. Chad's budget transparency improved in 2009 over 2008 in part because 2009 was a year lacking rebel attacks on the capital. Thus in 2009 Chadian government and elected officials could focus on matters such as preparing the national budget, debating it in inter-ministerial meetings, and submitting it to the National Assembly for scrutiny. In 2008, budget preparation and ratification were interrupted by repeated rebel incursions and by destruction of the National Assembly by rebel forces.

17. (SBU) Question: Are incomes and expenditures included in the publicly-available budget? Yes. The Chadian national budget as printed by the government printing office and made available to the general public by the Finance Ministry contains information on incomes and expenditures. One local NGO has as its specific purpose studying national budgetary incomes and expenditure figures, comparing them, and publishing its own "citizens' guide" to the national budget.

18. (SBU) Question: What is the extent to which Chad's publicly-available budget accurately reflects actual government incomes and expenditures? Answer: The Chadian national budget is increasingly transparent and accurate thanks to the efforts of technical advisers from the IMF and EU, and also thanks to reform efforts on the part of the Finance Ministry and ongoing anti-corruption campaigns that President Deby has personally endorsed. In specific:

-- IMF Activities: The IMF has had a Staff-Monitored Program (SMP) in Chad since April 2009 to offer training in control and transparency regarding public revenue management and budgeting. Once the nation meets the program's full requirements, Chad will become eligible for HIPC debt relief. In the past, Chad engaged in extra-budgetary expenditures in the military area in order to procure equipment used to counter rebel attacks. Chad has also had a tendency to budget for infrastructure projects in ways that put IMF and World Bank-required poverty reduction programs at risk when the international price of oil drops. Among the IMF's goals are ensuring that Chad reduces extra-budgetary spending to the extent possible, and that it makes a priority of poverty reduction by budgeting in a manner that guarantees continued key project funding independent of oil price fluctuations (see below). The IMF is also working to ensure that Chad sticks to its budgets once these are approved: in the past, in addition to extra-budgetary military and infrastructure spending from unacknowledged sources of income, there was a tendency for money to be diverted from the Ministries of Health and Education to the Ministries of Infrastructure and Defense even after formal budgets were adopted.

-- EU Activities: Alongside the IMF's SMP, the EU has a Euro 13 million project in place to improve public finance transparency and strengthen capacity within the Finance Ministry regarding customs, taxation and budgeting. In parallel with this project, experts from the EU worked in conjunction with the IMF's AFRITAC (based in Libreville) in mid-2009 to establish a technical assistance center in Chad; the center has been offering ongoing training and seminars on topics including decentralization, accounting standards, debt management, microfinance, auditing and economic record-keeping. One of the EU's aims related to oil revenues

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is to help Chad achieve membership in the Extractive Industries Transparency Initiative (EITI). This will involve the GoC's making formal, published commitments to international standards of transparency with respect to oil income, including taking part in a four-step "sign-up" procedure. The EITI's African Regional Director visited Chad in January 2010 at the invitation of the GoC's Minister of Petroleum, following a GoC decision to move forward on EITI candidacy. (The GoC had earlier resisted the need to meet stipulations in the sign-up procedure.) (NOTE: Oil revenue accounts for 70 per cent of the GoC's total income. If EITI membership encourages the kind of transparency that we hope it will, public information on government income will increase enormously. END NOTE.)

-- Chadian National Activities: Backed by advisers from the IMF and EU, the Chadian Finance Ministry took action in 2009 to deal with the effects of lower-than-expected oil revenues, and thus, with the relatively bleak budgetary picture that Chad faced mid-year. A sub-ministry in charge of micro-finance and the fight against poverty was established in June 2009, and the Finance Ministry revised the 2009 national budget downward and reevaluated spending priorities, based on advice from the IMF with respect to using oil revenues so as to benefit all Chadians. The Finance Ministry prepared its 2010 budget in collaboration with IMF SMP experts. The Ministry also instituted reorganizations of certain government organs, enhanced tax and customs collection procedures, ceased cash payments of salaries to bureaucrats, insisted that the Ministry of Defense "clean up its books" so that every soldier's identity would be known and every soldier paid only once, and in general pressed for greater accountability regarding public spending, particularly defense and infrastructure spending. The Minister of Finance was asked to testify against other GoC officials charged in a series of anti-corruption campaigns that are still under way at this writing. President Deby, in his New Year's address to the nation at the beginning of 2010, pledged to continue the GoC campaign to eliminate corruption from Chadian national life. He criticized the

practice of "taking liberties" with public goods, and promised prosecution of those who accepted kickbacks or demanded bribes. In response to public criticism of infrastructure spending in a manner suggesting cronyism, the Ministry of Infrastructure established a public website in 2009 laying out details of its plans, making linkages between specific plans and the general well-being (including poverty reduction and education) and explaining methods of financing.

¶9. (SBU) Question: Have there been any events since the 2009 review that may have affected fiscal transparency? Answer: Chad enjoyed a relatively benign security situation in 2009 -- only one significant rebel attack, and that occurring outside the capital -- affording the GoC an opportunity to conduct its budgeting processes according to standard procedures rather than in the emergency manner that characterized planning in 2008. The climate of relative stability in 2009 also allowed Chad's higher education institutions to function more normally; these include a National School of Administration, akin to France's ENA, and an elite new business school, akin to France's HEC, both of which are training future generations of bureaucrats according to international standards in the economic realm. The presence in Chad in 2009 of the IMF's SMP team and EU technical experts, and the World Bank's October 2009 visit to Chad and announcement that it would resume cooperation suspended in 2006 in a dispute over management of oil revenues, all encouraged greater transparency and accountability. Ongoing anti-corruption campaigns that have led to investigations against ten high-ranking officials including several Ministers and the Mayor of N'Djamena are a response to rising public expectations for GoC accountability in an election year. The GoC revised its 2009 budget mid-year in response to requests from the IMF, and prepared its 2010 budget in conjunction with the IMF's SMP experts.

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IMF sources have pronounced the 2010 budget "not a bad effort overall."

¶10. (SBU) Question: Since last year's review, what efforts has Chad undertaken to improve fiscal transparency? What progress has been made pursuant to the 2009 demarches on the subject? Answer: See paras 6 and 7 above. Also, Chad's current presidency of both CEEAC and CEMAC, and its cultivation of OHADA partners during the twin presidencies of the former organizations (including by hosting an OHADA summit in December 2009), have increased opportunities for participation in regional efforts to standardize customs procedures, border controls, taxation and duty implementation, development of new economic investment zones, harmonization of energy, environmental and health policies, development of common road infrastructure, development of common anti-corruption standards, and other multinational initiatives dependent on budget transparency throughout Central Africa. In 2008, Chad adopted a national Investment Charter, designed to draw foreign direct investment into the nation. It has been active in efforts to standardize commercial and business law among OHADA participants, and has pressed other OHADA members to adopt supra-national arrangements on arbitration, recovery of debts, bankruptcy, receivership and accounting, all dependent to some extent on budgetary transparency. OHADA's supra-national arrangements will begin taking precedence over some local investment laws in January 2010.

¶11. (SBU) Question: What efforts has the GoC made since last year to improve fiscal transparency? See paras 6-10 above.

¶12. (SBU) Question: What actions have the USG, and U.S. officials at Post, taken to promote budgetary transparency in Chad? Answer: The USG has been more active across the board in 2009 than in 2008, reflecting better staffing and no emergency draw-downs. Throughout 2009 and up to the present,

we have made a priority of encouraging Chad to focus on the need to improve public finance management, consistent with our second MSP goal of promoting good governance, and consistent with IMF, World Bank and EU goals for Chad. We have an active dialogue with Chad's Ministries of Finance, Justice and Morality (all of which are playing key roles in anti-corruption efforts), as well as with the Prime Minister, who is himself a strong proponent of rule of law, on all good governance issues. We have also worked with the Ministries of Petroleum, Infrastructure and Defense to encourage transparent and appropriate use of oil revenues. Corruption remains a serious impediment to economic development in Chad, but ongoing anti-corruption campaigns focused on ending non-transparent contracting, bribery, kickbacks, embezzlement and impunity appear to be having some effect, and the Justice Ministry -- along with the Finance Ministry, an essentially impartial body -- has asserted itself to insist that rule of law be pursued in a number of recent, highly partisan cases.

¶13. (SBU) Question: Has there been progress? Answer: Yes. See paras 6-10 and 12 above.

¶14. (SBU) Updated Action Plan for improving fiscal transparency and promoting graduation out of the need for a waiver in 2011, should a waiver be required: Current IMF and EU assistance will continue into the foreseeable future. The goals of these organizations for Chad are the same as U.S. goals. Thus our strategy should consist of working in concert with international partners to make clear to the GoC the advantages of eliminating extra-budgetary spending, sticking with published budgets (particularly regarding the tendency of Defense and Infrastructure budgets to receive unplanned "gains" at the expense of social programs), taking into account fluctuations in international oil prices when planning for use of oil revenues, fighting corruption, and continuing to move toward EITI candidate membership. In concert with the EU, we should press the GoC to announce its intentions with respect to EITI and to begin composition of a

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plan of work. We should also encourage the World Bank to make good on its mid-2009 commitment to restart assistance to Chad.

¶15. (U) Minimize considered.
NIGRO